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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001318

SIPDIS

ENERGY FOR ALOCKWOOD AND LEINSTEIN  
HQ SOUTHCOM ALSO FOR POLAD  
TREASURY FOR MKACZMAREK  
COMMERCE FOR 4332/MAC/WH/JLAO  
NSC FOR DRESTREPO AND LROSSELLO

E.O. 12958: DECL: 10/01/2019

TAGS: [EINV](#) [ENRG](#) [ECON](#) [VE](#)

SUBJECT: VENEZUELA: LOOMING POWER BLACKOUTS

REF: A. 08 CARACAS 1228

[1](#)B. CARACAS 981

Classified By: Economic Counselor Darnall Steuart, for reasons  
1.4 (b) and (d).

[1](#)1. (C) SUMMARY: The Bolivarian Republic of Venezuela (GBRV)  
has not adequately invested in the electrical sector nor  
addressed its deteriorating infrastructure resulting in  
hundreds of isolated local power outages and regular  
nation-wide outages. Domestic electricity consumption has  
increased over 25 percent since 2004 while the GBRV has  
failed substantially to increase its generation capacity.  
END SUMMARY.

#### The Problems

[1](#)2. (SBU) As of early September 2009, Venezuela is on track to  
exceed 2008's record year of four major power outages.  
Hipolito Izquierdo, president of Corpolec, the umbrella  
government entity established in 2007 to administer the  
electrical sector, told the press on September 13 that  
electricity demand has increased over 25% since 2004 and that  
meeting this demand would require adding new supply to the  
grid equivalent to 1.5 megavolts every year. Media reports  
of internal GBRV figures estimate Venezuela's 2009  
electricity deficit at four percent. The same reports claim  
that the GBRV has only invested \$3.1 million in power  
diversification projects since 2008. Venezuela's electrical  
grid statistics indicate that it regularly imports Brazilian  
electricity during periods of peak demand. According to a  
report published the week of October 5 by the electrical  
workers federation (la Federacion de Trabajadores de la  
Industria Electrica or Fetraelec by its Spanish acronym),  
Corpolec will begin to ration electricity in the immediate  
future, which will affect all states and will result in some  
localities losing power for up to five hours daily through  
December.

[1](#)3. (SBU) Since 2004, power consumption has increased about  
6.3% annually on average. Maximum peak power demand has  
increased also, with many experts agreeing that an increase  
in 2008 and 2009 in the use of air conditioning units driven  
by low electricity tariffs, cheap imports, and access to  
cheaper credit drove the most recent demand boom. Power  
outages and poor electric service have become regular  
headlines in Venezuelan newspapers. The consequences of the  
GBRV's failure to invest in the sector (which it consistently

blames on the private sector companies nationalized in 2007) are unfolding. In order to reverse the problem, major investments must be made, not only to increase generation capacity, but also to improve transmission reliability and replace deteriorated distribution infrastructure.

14. (SBU) Venezuela is highly dependent on hydroelectric generation, which accounts for 62% of the total installed generation capacity. Thermal power generation infrastructure is largely obsolete, as most of the installed capacity has been operating for more than 20 years. Natural gas generates 52% of the electricity produced from thermal plants with fuel oil and gas oil splitting the remaining 48%. Hydroelectric generation is mostly concentrated in three massive dam complexes (particularly the Guri dam) located in southern Venezuela, requiring a stable and secure transmission and distribution network to traverse the country.

#### Anecdotes that Highlight the Numbers

15. (C) The head of Corpolec's office tasked with maintaining electricity distribution and transmission in the state of Miranda confirmed to EconOff on August 25 that the "exponential growth" in demand over the last five years has created a significant problem in generating sufficient electrical supplies. All GBRV projects to increase generation, he added, are medium-term solutions. He said that discussions of short-lived electrical rationing programs in states such as Miranda and Aragua would only provide short-term band-aids to a much larger problem. The Corpolec executive noted that the transmission network in Miranda is hindered by the limited capacity of its transmission lines.

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He admitted that there are constant power outages in cities other than Caracas and stressed that while many power outages are due to external factors, such as peak demand and forest fires, the nationwide system is designed to shut off once it sees a "low frequency/power tension" warning. This compounds the impact of power outages across the nation. Even though the national electric companies have been able to restore power to Caracas within a couple of hours (and to other areas in Venezuela within a couple of days), he conceded that a crisis could paralyze the country for an extended period.

16. (C) Orlando Cobo, President of Electra Representaciones y Construcciones (ERC), and its Technical Advisor, Didier Bermudez (protect both throughout), told PetAtt that Corpolec is "slapping band-aids on the system." Cobo claimed that he is very busy helping Corpolec secure emergency equipment in the U.S. to address some of the transmission and distribution problems in Venezuela. However, the majority of Corpolec's acquisitions are designed to repair Venezuela's electrical grid, not to expand or upgrade it. Bermudez added that Venezuela's national interconnected electrical system is inadequate. Instead of sections of the grid making up for failures in other sections, failures have cascaded through the grid, resulting in larger power outages. He attributed this to increased demand and a distribution system modeled on that of Cuba, which has not been properly designed, installed, or maintained.

17. (C) As the GBRV has nationalized the electrical sector, Cobo's utility customer base has been reduced to Corpolec and its subsidiaries. As an equipment importer, Cobo has worked around problems with securing USD to purchase machinery abroad and navigating GBRV Customs hurdles by convincing Corpolec to purchase equipment directly in the U.S. Cobo manages the projects, identifies equipment to be purchased abroad, negotiates the deals, and often arranges for delivery through third countries to mask the source of the equipment from Venezuelan Customs authorities. Corpolec pays ERC in USD to bank accounts located in the United States.

18. (C) A German electrical engineer resident in the Venezuelan state of Carabobo estimated that inefficiencies

from faulty ground transmission (poor insulation compounded by transmission line contact with trees, poles, etc.) wastes upwards of ten percent of all generated electricity. He claimed that Carabobo is often without power because the GBRV prioritizes transmission and distribution to Caracas at the expense of the rest of the country. He shared information he had received from another German electrical engineer who visited the Guri hydroelectric dam complex to assess its technical needs. The visiting engineer claimed that several of Guri's turbines are broken and shared his amazement that the complex is even functioning. He added that the site engineers cannot even shut off the water flow through the dam due to faulty controls.

#### Consolidation and Capacity of the Electric Sector

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¶9. (SBU) In 2007, the Bolivarian Republic of Venezuela (GBRV) determined that the power system was a strategic sector and the state quickly acquired the most important private companies operating in Venezuela. The cornerstone of the reorganization process was the creation of Corpoelec in May ¶2007. The company was designed to group all of Venezuela's power industry activities under one umbrella managed by the State. The consolidation of eight now state companies -- Cadafe, Edelca, EdC, Enelven, Enelco, Enelbar, Eleval, and Seneca ) has been slow. Nevertheless, currently, there is only one private company operating in Venezuela, Turboven, a joint venture which includes U.S. investment which provides power to a small network of industrial clients in central Venezuela.

¶10. (SBU) COMMENT: The increase in domestic power demand has created additional pressures on overburdened generation and transmission systems. Without immediate construction of new generation capacity Venezuela will likely continue to suffer from erratic power supply for the foreseeable future. END COMMENT.  
DUDDY